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BOOK REVIEW

Mario Morroni, *Knowledge, Scale and Transactions in the Theory of the Firm*, Cambridge University Press, Cambridge, 2006, 358 p. GBP 50.00 (USD 90.00) (ISBN 0 521 862434 HB)

This book seeks to analyze the firm in all its complexities. Firms, in the view of Morroni, are multifarious, and it is for this reason that insights from a broad range of subfields from economics as well as beyond the confines of our discipline are drawn upon. In addition to sources well-known to scholars in the field, such as Coase, Williamson, Grossman and Hart, stressing such issues as (radical) uncertainty, learning and routines, Morroni draws on Herbert Simon, George Shackle, Joseph Schumpeter, Frank Knight, Alfred Chandler and Nicolai Georgescu-Roegen.

Morroni lays out his framework right at the start of his book, on page 8, claiming that a set of Basic Conditions both external and internal to the firm relate to aspects of Decision Making. In its turn, factors implicated in Organizational Coordination are determined. Each of these boxes contains elements, according to Morroni, which he discusses each in a separate chapter. The box on Organizational Coordination contains the three factors mentioned in the title of the book. According to his model on page 8, it should then be possible to explain (organizational?) competitiveness. In the remaining 3 chapters, this link is not explained. Instead, chapters 4 and 5 discuss how firms wrestle with uncertainty and find ways of dealing with uncertainty. Is the goal of firms to deal with (decrease) uncertainty, instead of making a profit? Some firms might actually seek to increase uncertainty, and some actors seem not to worry about uncertainty. It is unfortunate, for instance, that Morroni does not discuss the role of entrepreneurs, but rather lumps entrepreneurs together with managers in the category of ‘entrepreneur – manager’. These would seem to be different kinds of actors, certainly from the perspective of the scholars Morroni points to as his sources for inspiration (scholars such as Shackle and Schumpeter). In the spirit of Edith Penrose’s 1959 book (*The Theory of the Growth of the Firm*) Morroni sets out to discuss in his concluding chapter how the three sets of factors would explain the growth of firms. It is unclear how growth of the firm would indicate its competitiveness, however.

Rather than continuing on the road where special-purpose models on firm behavior are developed and discussed, Morroni’s goal is to offer an encompassing ‘theoretical framework designed to study the *multifarious and changing nature* of the firm’ (p. 6, italics in original). As he claims that a ‘common vocabulary' is 'sadly' not available yet, his book, unfortunately according to me, gets stuck between the categories of texts books on the one hand and research monographs on the other. It is unclear why each chapter should end with a list of 'key concepts', and why a glossary with definitions should be provided at the end of the book. Morroni does not take the reader too far away from the mainstream core ideas on the firm in economics to necessitate a glossary. As one would expect for a text book, lists of factors are presented early on in the book or in a chapter, to be elaborated methodically. Relations between the factors could have been elaborated upon more. Morroni, given his background, should certainly be in a position to do so.

Despite all of this, this book is a welcome addition to the literature. In particular the discussion about how the vexed issue of uncertainty needs to be understood and can be argued to have implications for how economists understand the workings of the firm is of great value. The discussions Morroni stages in his book on the theme of uncertainty are both compelling and overdue from the point of view of economics. I am inclined to forgive him the repetitiveness with which he does so. Repetition might be needed in order to be persuasive, as this discussion informs much of the other issues Morroni has to offer. Indeed, if taken to its logical conclusions, it might mean an entirely different approach in studying firms is required for economics. Modeling *in abstracto* might not be the way forward. More empirically inclined work would probably be favored by Morroni, including based on surveys. Simulations, *in silico*, and experiments would be of assistance too, conceptually, possibly informed by well-designed case studies. This book thus certainly opens avenues for (thinking about) further research.

Equally, reading Morroni's work one wonders which of these avenues is most productive. This relates to tensions in Morroni's discussion. Stressing learning by both individuals and social entities (firms), a purely cognitive approach is shunned. Rather, people's bounded rationality is stressed, and routines are presented as a way for people (and firms, in line with the often quoted 1982 book *An Evolutionary Theory of Economic Change* by Richard Nelson and Sidney Winter) to behave. Still, much of the discussion staged by Morroni assumes agents' rationality and the incentives needed to make agents comply with a principal's goals. Can these issues be squared, conceptually? Maybe recourse to the discussion on economizing of an agent's time and intellectual capacities, dating back to at least the 1964 AER article by Baumol & Quandt on optimally imperfect rules of thumb, is required at least to arrive at some more conceptual clarity.

Morroni, nonetheless, provides a very welcome addition to the discussion on the theory of the firm, one that I can recommend to many a scholar who works in the field of the economics of organizations and firms.

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